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SUBJECT: FRANCE: RETHINKING INDUSTRIAL POLICY

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[1](#)1. (SBU) Summary. President Sarkozy has initiated a national debate on the country's long-term industrial policy. After a three and half month consultative process starting this month with small/medium sized enterprises and industries (SME/SMIs), unions, local governments, experts, and the general public, the government of France (GOF) will consider recommendations on designating innovative strategic sectors, as well as industries in need of reform or workforce renewal. The debate's findings should fold into other state-led, long-term planning initiatives that aim to keep jobs, industries, and know-how at home. End summary.

The "State is Back"  
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[1](#)2. (SBU) Sylvain Roques, industrial policy advisor to the Minister of Industry Christian Estrosi, told us that Sarkozy is fully backing the "Estates-General for Industry" (EGI) initiative, which Roques said marks the "return of the state" in industrial policy. When Sarkozy announced the EGI on October 5, he said that the "market is important" but the "state's duty is also to have an industrial policy". Over the course of 3-5 years, Estrosi's office and his superior, Minister of Economy Christian Lagarde, will introduce incentives to promote the development side of R and D in key industries (bio and nanotechnologies, eco-industries, fiber optics, electric vehicles), Roques stated. Estrosi cited two examples: an "innovation tax credit," that would complement the existing research tax credit and help companies through the period between patent filing and production launching, and subsidized loans for investments in eco-friendly industrial processes. Moreover, Estrosi wants to promote interaction between France's most competitive industrial sectors, for example, between renewable energy and water treatment, or between the medical device and health care service industries.

From out- to in-sourcing  
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[1](#)3. (SBU) GOF efforts will also focus on sectors in need of "reform, restructuring, and workforce retraining", Roques added. In particular, the GOF is pushing for "re-localization" (in-sourcing), in the automobile and luxury goods sectors (Chanel, Hermes) because the GOF wants to bring jobs back to France, he stressed. Opening the EGI, Estrosi said he would focus his efforts on financial and tax assistance for the relocation of production facilities to France, and for R and D (1.5 billion euros to bolster R and D in competitive industrial sectors for 2009-2011). Companies will also be offered incentives worth up to 15,000 euros per job repatriated to France, Estrosi continued, but details are scarce and will depend on several factors, including company location. Roques told us the number of jobs eligible for such incentives is still under review.

[1](#)4. (SBU) In an October 5 speech, President Sarkozy said he was adamant about reducing outsourcing. He noted that in 2007, France's

principal automobile maker (Renault), in which the GOF has a 17 percent stake, had 75 percent of its labor force outside France: "I want that reality to change...it is not normal to produce cars abroad when we sell them in France. Outsourcing is not something we can accept or want. That is not industrial development", Sarkozy stated.

(Note: outsourcing has increased in France since 2006. Official figures put the loss of industrial jobs from 2002 to 2006 at 500,000, of which 3-10 percent were due to outsourcing. End note.)

#### The Estates-General for Industry process (EGI)

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15. (U) Akin to the "Grenelle process" for environmental policy, the EGI is a nation-wide consultation aimed at generating ideas and support for revamping industrial policy. For the next several months, the GOF will consult SME/SMIs, unions, associations, independent experts, and local and regional governments to designate the country's most strategic industrial sectors for development. A National Committee for the EGI (NCEGI), plus ten working groups, will lead different sectoral and cross-sectoral discussions. Regional workshops should start operating by mid-November and will release their findings mid-December. A special website will amass views from the general public. This consultative process ends in February 2010 at which time the NCEGI will present its recommendations to the GOF and a "National Convention" will be held. President Sarkozy then plans to announce the country's "new industrial policy".

#### Break-down of EGI themes

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16. (U) Minister Estrosi outlined the major EGI themes in an October 15 speech.

- Innovation and entrepreneurship to boost small enterprise growth;
- Partnerships and networking (among distributors, sub-contractors,

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- international associates);
- Employment and training;
- Competition and green growth;
- Access to financing.

#### SME/SMI- the weak link

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17. (SBU) Embassy contacts underscore that it is difficult for SME/SMIs in France to grow into large companies. Our contacts stressed the need for French SME/SMIs need to reach a "critical mass of 500 employees." Sandrine Bourgoigne, Deputy Secretary General of the French small and medium business confederation told us that French SME/SMIs stagnate and fail to grow for a number of reasons: 1. high fiscal and administrative costs for companies with more than nine employees, 2. management with limited international training and experience, and disinclined to bring in foreign investors, 3. limited export activity, and 4. dependency of supplier companies on large domestic distributors/buyers.

18. (SBU) Marcel de la Haye, Estrosi's advisor on international affairs, stressed the problem of capital. He said French SME/SMIs traditionally have low capital/cash reserves that limits their ability to cover operating costs, social charges, and taxes, not to mention investment and R and D. The GOF hopes EGI initiatives will help boost SME/SMI's innovation and competitiveness, a point Sarkozy has made in every speech on industrial policy in the last year. However, the GOF can't do everything, Roques stressed, implying it will have to make choices about what industries to promote or re-orient. For now, the most pressing goal is to break the "500 employee glass ceiling" and keep SME/SMI know-how in France, Roques concluded.

#### Special Debt Issue

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19. (SBU) The EGI will fold into the priorities of the upcoming special debt issue, or "Grand emprunt", Roques noted. Planned for the beginning of 2010, the special debt issue will provide financing

for long-term projects. The special debt issue, along with the EGI, and the GOF's recovery plan should be consistent and mutually reinforcing, Roques explained. These state-led initiatives will promote growth and R and D in key sectors and innovative technologies, while reorienting and reforming others, all of which must also comply with the GOF sustainable development mandate, Roques concluded.

Rocky Start to the EGI

¶10. (SBU) The EGI was originally proposed by Bernard Thibault, chief of the leftist labor union Confederation generale du travail (CGT), and subsequently adopted by President Sarkozy. Other labor and employer unions have agreed to participate in the EGI, but have called for vigilance on how the GOF proceeds with the process. On October 22, an estimated 13,000 workers (according to police, 30,000 according to the CGT) demonstrated in Paris against job cuts and over fears of future changes to industrial policy that the EGI might bring about. Thibault called on employees from industries hit by the economic downturn (metal, textile, chemical, paper) to speak out for an EGI that leads to greater job stability and reduced outsourcing. The CGT leader has been a long-time advocate of an EGI but recalled the government's poor performance this summer regarding the Molex labor dispute (Ref A). The Force ouvriere (FO) union also expressed doubts the EGI would be a meaningful exercise, or that Thibault and the CGT could effectively represent labor's interests.

Comment

¶11. (SBU) For the EGI to get off the ground, the GOF must not only be willing to step forward and make strategic choices, but it must also get business, labor and, to some extent, finance to engage and buy in to its approach. Although the idea of an EGI originated with a left-wing labor union, Sarkozy is lending his political weight to the initiative, as well as his own spin. Although the French are used to the intervention of a strong state (Ref B), Sarkozy will still have difficulty achieving consensus on industrial policy. However, by consulting a broad range of stakeholders, Sarkozy will have made a visible effort at inclusiveness, while maintaining the ability to put his imprint on industrial policy.

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